

Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	



General Certificate of Education  
Advanced Subsidiary Examination  
June 2014

# Business Studies

# BUSS1

## Unit 1 Planning and Financing a Business

Monday 19 May 2014 1.30 pm to 2.45 pm

**For this paper you must have:**

- a calculator.

**Time allowed**

- 1 hour 15 minutes

**Instructions**

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

**Information**

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- Questions 2(b) and 2(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
  - use good English
  - organise information clearly
  - use specialist vocabulary where appropriate.

**Advice**

- You are advised to spend about 20 minutes answering Question 1.



J U N 1 4 B U S S 1 0 1

Read the **case study** and then answer the questions that follow.

### Asha's Vintage Fashions

During her textile design degree course, Asha enjoyed designing vintage-style clothing. Her designs were so popular that over the three years of her course she made and sold 80 garments at an average price of £60 each. She calculated that her 80 garments had made a total contribution of £2 880 and she believed that she could have a viable business. After graduating, she decided to set up a sole trader business, designing and selling vintage-style clothing. 5

Asha decided that her target market segment would be females aged 15 to 29. She believed that they would pay an average price of £60 for vintage-style clothes in 2014, 50% higher than for modern designs. Asha knew a textile manufacturer who would make her clothes which she would sell online. 10

Asha gathered some market research. First, she obtained data from a magazine article on the market for vintage-style clothing for females, shown in **Figure 1**.

**Figure 1: Data on the UK market for vintage-style clothing for females**

% of sales income through different distribution channels	Store sales			Online sales		
	2009	2010	2011	2009	2010	2011
	40%	35%	30%	60%	65%	70%

Source: Vintage Fashion magazine (January 2012)

The magazine also noted that online sales were increasing because they enabled firms to launch new designs more frequently. From 2012 to 2015, store sales of vintage-style fashions were forecast to fall by 5% per annum, whilst online sales were expected to grow by 8% per annum. 20

She also visited her local town centre and carried out a survey of 200 women aged from 15 to 29. She then held a focus group with five of her friends to obtain more detailed information. The results of this research are shown in **Figure 2**.

**Figure 2: Results of Asha's survey and focus group findings**

Survey findings:

- 78% of respondents preferred 1960s fashions to the fashions of the 1950s and 1970s
- 50% of the target market segment preferred to buy from shops
- 87% would be willing to buy directly through the internet
- 60% of respondents would restrict their wardrobe to two or three vintage-style items. 30

Source: Asha's survey (May 2014)

Focus group findings:

There was a distinct preference for primary colours, floral and tie-dye patterns, and vintage hats. Vintage belts, scarves, boots and shoes were disliked by members of the focus group. 35

Source: Asha's focus group meeting (May 2014)



Asha had a consultant who was a national fashion franchisor. He warned her that it would be difficult for her to prove that she was the original designer of a garment. This would mean that she would need to sell her new garments quickly and change designs rapidly, as some businesses would copy her popular items and sell them at lower prices. It might also be very expensive to take legal action against these firms. 40

Asha realised that she would need to raise £80 000 finance to set up her online business on a full-time basis. Her bank manager offered her a three-year bank loan at 6% interest per annum.

Asha met with a venture capitalist, Terence, who looked at some samples of her work. 45

“Your designs are brilliant and I am very impressed with the quality of the samples you have shown me,” he said, “but you have no marketing or financial experience. These are my strengths. If you create a private limited company, I will put the £80 000 into the business. I guarantee that I can increase sales by 2000 garments per annum over the next five years.”

Terence agreed with Asha’s sales forecast of 3000 garments in 2014. However, he indicated that the business would need to cut the average price to £50 in 2015 in order to achieve the sales target of 5000 garments for that year. Terence then scrutinised Asha’s predicted costs. She had already signed contracts that would mean fixed costs of £72 000 for 2014. Terence stated that he could cut fixed costs by £20 000 in 2015. However, Terence was more concerned about Asha’s variable costs. “I agree with your forecast of £20 per garment in 2014 but raw material prices are expected to rise in 2015 and it will be difficult to maintain that cost level in 2015. I will do some further cost research for you.” 50 55

Asha agreed to set up a private limited company, with Terence having 40% of the ordinary share capital. In return, Terence would provide £80 000 finance and his expertise and advice. They set themselves one primary objective: to achieve a profit of £85 000 in 2015, their second year of trading. 60

**Turn over for the questions**

**Turn over ►**



Answer **all** questions in the spaces provided.

You are advised to spend about **20 minutes** on Question 1.

**1 (a)** Define the term 'market segment' (line 28).

**[2 marks]**

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**1 (b)** What is meant by the term 'franchisor' (line 37)?

**[2 marks]**

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**1 (c)** Calculate the variable costs per unit for the 80 garments that Asha made during her degree course.

**[4 marks]**

Variable costs per unit .....

Workings .....

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Extra space .....

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**1 (d)** Explain **one** problem that Asha might experience in protecting her ideas for new designs.

**[5 marks]**

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Extra space .....

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**Question 1 continues on the next page**

**Turn over ►**



**1 (e)** The break-even chart (**Figure 3**) opposite shows the original (**2014**) break-even situation for Asha’s business.

**1 (e) (i)** Terence is worried that fixed costs are too high. At the original (**2014**) break-even output, what percentage of total costs are fixed?

**[3 marks]**

Percentage of total costs that are fixed .....

Workings .....

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Extra space .....

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Terence expects fixed costs and selling price to fall in **2015**. Amend the break-even chart to show the expected changes by drawing the following:

**1 (e) (ii)** the new total costs line after fixed costs fall by £20 000 (label this TC2);

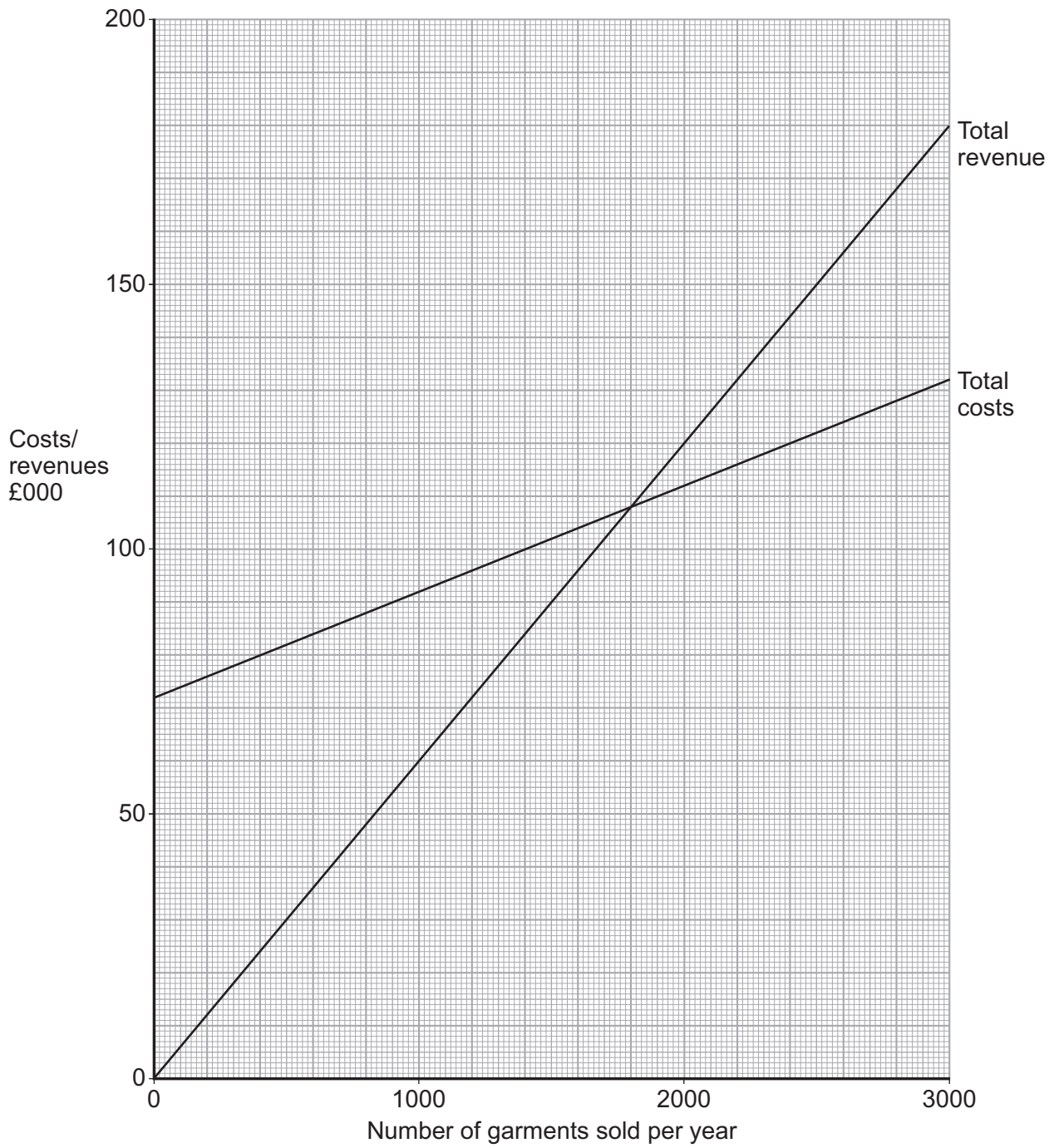
**[2 marks]**

**1 (e) (iii)** the new total revenue line after the selling price falls to £50 per garment (label this TR2).

**[2 marks]**



**Figure 3: Break-even chart for Asha's vintage fashions**



20

Turn over for the next question

Turn over ►













